

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

While all projects must demonstrate financial feasibility, these guidelines describe what CHFFA would expect to see given a transaction (or borrower) with a particular rating (or no rating). The Authority would reserve the right to use its discretion as necessary and appropriate. The Authority acknowledges that each financing must be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such exception is a necessary part of a cost-effective and prudent borrowing strategy. Conversely, the Authority retains the flexibility to request additional provisions as circumstances warrant. Appendix A provides a written summary of these guidelines.

BOND RATING (1)	LOAN SECURITY PROVISIONS	BOND COVENANTS
I. A-/A-/A3 or Better Rated Debt (public offering)	<ul style="list-style-type: none"> Unconditional Promise to Pay Gross Revenue Pledge For systems, an obligated group structure – joint and several obligation is preferred. Will consider corporate style structures for stronger rated systems on a case-by-basis. 	<u>Reporting Covenants:</u> <ul style="list-style-type: none"> Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants Submission of required Arbitrage Reports to Authority Annual Audited Financial Statements Quarterly submission of unaudited financials, if requested <u>Financial Covenants:</u> (See Financial Covenants below)
II. BBB+/BBB+/Baa1 (public offering)	<ul style="list-style-type: none"> Unconditional Promise to Pay Gross Revenue Pledge For systems, must use an obligated group structure – joint and several obligation Debt Service Reserve Account funded to the maximum amount permitted by federal tax law for such series (currently, the least of 10% of principal amount of bonds, maximum annual debt service or 125% of average annual debt service). Must be funded at all times with internal cash, bond proceeds, or qualifying letter of credit or surety bond Minimum denominations of \$100,000 Bonds cannot be split by selling participatory shares 	<u>Legal Covenant:</u> <ul style="list-style-type: none"> Must comply with Section 15438.5 (g) of the Government Code <u>Reporting Covenants:</u> <ul style="list-style-type: none"> Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants of bond documents Submission of required Arbitrage Reports to Authority Annual Audited Financial Statements Submit quarterly unaudited financials, if requested <u>Financial Covenants:</u> <ul style="list-style-type: none"> Maintain appropriate rates and charges to maintain a minimum coverage ratio of at least 1.25 times maximum annual debt service Must submit annual reports that show that the coverage is being met, per certification of the financial officer If the coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions Must maintain minimum 1.25 coverage to take on additional debt <u>Other Covenants:</u> <ul style="list-style-type: none"> Other covenants as appropriate
III. Less than BBB+/BBB+/Baa1 or Unrated Debt	<ul style="list-style-type: none"> Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933 Minimum denomination of \$250,000 Unconditional Promise to Pay Gross Revenue Pledge Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond) Bonds cannot be split by selling participatory shares 	
BORROWER RATING (1)		
IV. Unrated Debt for Equipment Program (for equipment purchases generally \$5 million or less) Private placements for health facilities with current debt ratings of BBB+/BBB+/Baa1 or higher (generally reserved for smaller transactions)	<ul style="list-style-type: none"> Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933 Minimum denomination of \$100,000 Bonds cannot be split by selling participatory shares 	<u>Legal Covenant:</u> <ul style="list-style-type: none"> Must comply with Section 15438.5 (g) of the Government Code <u>Reporting Covenants:</u> <ul style="list-style-type: none"> Annual submission of Certificate of Compliance with CHFFA Statute, financial and other covenants Submission of required Arbitrage Reports to Authority Annual Audited Financial Statements Submit quarterly unaudited financials, if requested

(1) Refers to rating categories used by Standard & Poor's/Fitch/Moody's.

Appendix A

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

The Authority will generally require the following security provisions and bond covenants given a transaction with a particular rating (or no rating), as specified below, and reserves the right to use its discretion as necessary and appropriate. Each proposed financing will be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such an exception is a necessary part of a cost-effective and prudent borrowing strategy: At the same time, the Authority reserves the right to request additional provisions as circumstances warrant.

The ratings shown are the respective categories of Standard & Poor's, Fitch and Moody's.

I. A-/A-/A3 or Better Rated Debt (public offering or private placement)

1. Loan Security Provisions:

- a. Unconditional Promise to Pay
- b. Gross Revenue Pledge
- c. For systems, an obligated group structure – joint and several obligation is preferred. Will consider corporate style structure for stronger rated systems on a case-by-basis

2. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested

3. Financial Covenants:

- a. Maintain appropriate rates and charges to maintain a minimum debt service coverage ratio of at least 1.25 times maximum annual debt service
- b. Must submit annual reports that show that the debt service coverage is being met, per certification of the financial officer
- c. If the debt service coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions
- d. Must maintain minimum 1.25 debt service coverage to take on additional debt

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

II. BBB+/BBB+/Baa1 (public offering)

1. Loan Security Provisions:

- a. Unconditional Promise to Pay
- b. Gross Revenue Pledge
- c. For systems, must use an obligated group structure – joint and several obligation
- d. Debt Service Reserve Account funded to the maximum amount permitted by federal tax law for such series (currently, the least of 10% of principal amount of bonds, maximum annual debt service or 125% of average annual debt service). Must be funded at all times with internal cash, bond proceeds, or qualifying letter of credit or surety bond .
- e. Minimum denominations of \$100,000
- f. Bonds cannot be split by selling participatory shares:
 - (i) The offering material/disclosure document shall prominently indicate on the cover that shares of individual bonds may not be sold to other investors
 - (ii) The face of each bond shall contain a legend stating to the effect that shares of such bonds not be sold to other investors
 - (iii) The bond documents shall contain provisions that restrict the ability of shares of bonds to be sold to other investors

2. Legal Covenant: Must comply with Section 15438.5 (g) of the Government Code

3. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested

4. Financial Covenants:

- a. Maintain appropriate rates and charges to maintain a minimum debt service coverage ratio of at least 1.25 times maximum annual debt service
- b. Must submit annual reports that show that the debt service coverage is being met, per certification of the financial officer
- c. If the debt service coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions
- d. Must maintain minimum 1.25 debt service coverage to take on additional debt

5. Other covenants as appropriate, the specific terms of which would be at the discretion of the Authority and the credit enhancer, if credit enhancement is utilized.

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

III. Less than BBB+/BBB+/Baa1 Rated Debt or Unrated Debt

1. Loan Security Provisions:

- a. Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933
- b. Minimum denomination of \$250,000
- c. Unconditional Promise to Pay
- d. Gross Revenue Pledge
- e. Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond)
- f. Bonds cannot be split by selling participatory shares:
 - (i) The offering material/disclosure document shall prominently indicate on the cover that shares of individual bonds may not be sold to other investors
 - (ii) The face of each bond shall contain a legend stating to the effect that shares of such bonds not be sold to other investors
 - (iii) The bond documents shall contain provisions that restrict the ability of shares of bonds to be sold to other investors

2. Legal Covenant: Must comply with Section 15438.5 (g) of the Government Code

3. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested

4. Financial Covenants:

- a. Maintain appropriate rates and charges to maintain a minimum debt service coverage ratio of at least 1.25 times maximum annual debt service
- b. Must submit annual reports that show that the debt service coverage is being met, per certification of the financial officer
- c. If the debt service coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions
- d. Must maintain minimum 1.25 debt service coverage to take on additional debt

5. Other covenants as appropriate, the specific terms of which would be at the discretion of the Authority and the credit enhancer, if credit enhancement is utilized.

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

IV. Unrated debt for Equipment Program (for equipment purchases generally \$5 million or less) or Private placements for health facilities with current debt ratings of BBB+/BBB+/Baa1 or higher (generally reserved for smaller transactions)

The guidelines in sections “I” through “III” are based on the rating of the bonds to be issued. However, this is a special category where the guidelines relate to the type of transaction. The Authority will give special consideration *to small equipment private placements* and to *health facilities with current debt ratings of BBB+/BBB+/Baa1 or higher* that want to privately place their bond offerings. For these particular types of transactions, the loan security provisions and bond covenants are streamlined as outlined below.

1. Loan Security Provisions:

- a. Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933
- b. Minimum denomination of \$100,000
- c. Bonds cannot be split by selling participatory shares:
 - (i) The offering material/disclosure document shall prominently indicate on the cover that shares of individual bonds may not be sold to other investors
 - (ii) The face of each bond shall contain a legend stating to the effect that shares of such bonds not be sold to other investors
 - (iii) The bond documents shall contain provisions that restrict the ability of shares of bonds to be sold to other investors

2. Legal Covenant: Must comply with Section 15438.5 (g) of the Government Code

3. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested